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TAGS: [FAIR](#) [BEXP](#) [KPRV](#) [JO](#) [IZ](#)  
SUBJECT: RJ CEO SEES A GOOD YEAR BUT CHALLENGES IN 2004

REF: A. AMMAN 3488  
[B](#). AMMAN 1471

Classified By: AMBASSADOR EDWARD W. GNEHM FOR REASONS 1.5 (B) AND (D)

[1](#)1. (C) SUMMARY: Royal Jordanian Airlines (RJ) CEO Samer Majali briefed ECON/C and SCO on prospects for RJ over the near-to-medium term during a June 20 courtesy call at RJ headquarters. Majali believes that despite substantial challenges to the airline resulting from higher fuel prices and uncertainty following the turnover of authority in Iraq, RJ is on track to perform well in 2004, perhaps setting the company up for a partial privatization in the near future. He also complained of the long lag time that RJ will face prior to receiving the 737s that will replace its short-to-medium range fleet, but held out hope of an additional Boeing purchase. Majali's insights are useful; he may however be on his way out as RJ boss. END SUMMARY.

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GOOD START TO 2004, BUT FUEL WORRIES  
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[1](#)2. (SBU) Majali described this year as a renewed chance for RJ to dig its way out of the hole into which it has fallen over the past three years. Following the first six months of 2003, and especially the month-long war in Iraq, during which RJ had had "virtually zero" passengers, RJ has seen a steady climb in traffic and was now performing substantially better than average. For evidence of this trend, Majali pointed to 2004 Q1 statistics on seat occupancy on RJ flights (72 percent vs. a usual percentage in the low sixties) and profitability (a small profit for RJ in the quarter vs. a usual small loss in Q1 in most years). Majali attributed the increased traffic (and resultant profit increase) to two primary factors: a revival in the Jordanian tourism industry (septel), and a substantial increase in business travel due to Iraq-related business.

[1](#)3. (SBU) A significant dampener on Majali's profit expectations, however, has been the high price of fuel, which Majali says is "killing the industry." According to Majali, the crude price swings over the course of the year will likely mean the difference between overall profit and loss for RJ in 2004. The surcharge RJ has imposed on tickets covers only 20 percent of increased fuel costs, and Majali complains that the Jordan Petroleum Refinery Co. (from which RJ receives all of its fuel) has given RJ no breaks on price, "despite the fact that they are getting all of their oil for free." (NOTE: Even if this statement were pertinent, it is not entirely accurate - Reftel A)

[1](#)4. (SBU) The 2004 results take on added importance in view of RJ's privatization plans. Once slotted for a partial (49 percent) sale to a potential strategic partner, RJ's privatization was put on hold in the wake of September 11, when a precipitous decline in tourist traffic made RJ's balance sheet extremely unattractive to most potential partners - many of which suddenly found themselves strapped for cash in any case. With good results in 2004, however, Majali anticipates that the government will put ten to thirty percent of the company on the block in an IPO in 2005.

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IRAQ PLANS  
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[1](#)5. (SBU) Longer-term, RJ continues to view its operations in Iraq as a key portion of its overall strategy. Majali downplayed the profit that RJ is making on its twice-a-day Amman-Baghdad flight, but implicitly admitted the substantial knock-on effects that the route has in increasing traffic on its other routes. He also talked of RJ's interest in eventually serving some of the secondary Iraqi airports, including Basra and Mosul, saying that while there is not yet enough demand to make them profitable, he expects economic growth to spur rapid increases over the medium term, assuming an acceptable level of security.

[1](#)6. (SBU) Majali complimented the professionalism of the new

Iraqi Minister of Transport and the new Iraqi Airways (IAC) president - the fourth since the end of the war. He expressed frustration, however, with the uncertainty surrounding the end of the CPA. For example, Majali noted that he had been repeatedly told that RJ will no longer be in charge of baggage handling at Baghdad International Airport (BIAP) after June 30. However, he has been told just as frequently that RJ's successor (IAC) is not ready to take over the job. Further on in the post-transition era, Majali expects bruising negotiations with IAC over use of the Jordan-Iraq air routes. Majali says that RJ agreed at the beginning of the month to pay "nominal" royalties to IAC on its Amman-Baghdad flight (according to the IAC country director in Jordan, RJ will pay IAC US \$15 per Amman-Baghdad one-way passenger, but not retroactively). Majali appears to believe, however, that this is a stopgap and that IAC will soon be back for a bigger piece of the pie. On a positive note, however, he knows of no missiles fired against any aircraft coming into or out of BIAP in the past three months. All the same, he is trying to keep RJ's profile low, and recently refused an interview with a U.S. newspaper on the Amman-Baghdad flight.

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U.S. CODESHARE  
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17. (SBU) Another long-term step forward by the airline is the impending conclusion of its codeshare agreement with America West airlines, which Majali believes should take place within the month, after the visit of an auditing team from America West and applications by both RJ and America West for antitrust waivers. The agreement will strengthen RJ's direct routes from Amman to New York (JFK) and Chicago (O'Hare). It does not however provide any further support to RJ's other major routes (primarily to Europe). Majali also does not expect to be able to get a substantial percentage of the heavy USG traffic traveling to (and through) Amman until such time as RJ is able to fly to Washington (to which America West does not fly). For these reasons, RJ is continuing to actively pursue membership in the Star alliance (United, Lufthansa, etc.), and to a lesser extent, OneWorld (American, British Air, etc.). It has written off SkyTeam entirely after repeated instances of obstructionism by Air France.

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BOEING PURCHASE  
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18. (SBU) SCO raised the planned RJ purchase of five Boeing 737 aircraft (to replace RJ's aging medium-range A320 fleet - Reftel B), and Majali replied that a seven-person team from Boeing was currently working out the details of the purchase with RJ staff. He reiterated his frequent complaint about the difficulty in getting a quick delivery time for purchased aircraft, saying that the decision by Boeing to throttle back production to such a large extent in the wake of September 11 had left a serious backlog of aircraft orders and resulted in higher leasing prices for Boeing aircraft - major disincentives for airlines wishing to purchase or lease Boeing aircraft. Majali expects to receive only two 737s next year, and he said that he is considering elimination of only one A320 from the fleet in order to make the RJ fleet a bit larger until the other three 737s are delivered in 2006. Delivery dates of the four leased 737 aircraft are unknown, as the lessor has not yet been selected.

19. (SBU) Majali also noted that RJ is looking to increase the extent of its regional service due to the rise in intra-regional tourism in the Middle East, and that it therefore plans to expand the fleet of its short-haul subsidiary Royal Wings. RJ is considering purchase of one or more Boeing 717 aircraft to fill this need, though other regional jet manufacturers are in the running as well.

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COMMENT  
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10. (C) RJ is quickly approaching a point of decision, after which it will be expected to sink or swim. The long overdue privatization of the line is increasingly viewed as an anomaly in a generally successful GOJ privatization program, and pressures are building up from several directions for Jordan to be opened to free competition. Not brought up at the meeting, but worthy of mention, was last month's GOJ pledge for a full Open Skies policy at all Jordanian airports by 2007. In a market with increasingly cutthroat competition from a larger and larger array of regional airlines (some heavily subsidized by their home governments in the Gulf), RJ will need a much more streamlined business model to remain afloat, let alone expand. The airline is betting heavily on its operations in Iraq to provide it with a base of profitability and a competitive advantage, but events there seem likely to quickly diminish RJ's advantage on these routes.

11. (S/NF) RJ's final lunge towards sustainable profitability as a private company will likely happen without Majali, however. The 25-year RJ veteran appears to be on his way out, the victim of too many disappointing years and too little initiative in reforming the company. In a meeting with the Ambassador, King Abdullah noted that he had secretly contracted with a consulting firm - without informing RJ or his brother Prince Faisal, the "godfather" of aviation in Jordan - to undertake an outside review of options for the company. That the King would take such a step is indicative of his deep dissatisfaction with the company's performance and his belief that radical measures are required to remedy the situation. Jordan's civil aviation sector will likely see substantial transformation over the coming 2-3 years.

GNEHM